

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Condensed financial information

Our Conclusion

The University of Arizona is responsible for preparing annual financial statements, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the University's financial statements annually. Since the University is a component of the State of Arizona, the information in its financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. A summary of the University's financial statements is presented to the right.

Based on our audit, we issued a report that included our opinion on the University's financial statements and a report on its internal control and compliance over financial reporting. The information in the University's fiscal year 2013 financial statements is reliable. Our report on internal control and compliance identified two deficiencies in internal control that the University should correct to ensure that it fulfills its responsibility to maintain effective internal controls. These deficiencies are summarized on the next page.



2013

Year Ended June 30, 2013

Statement of net position—This statement reports all assets, deferred outflows and inflows of resources, liabilities, and net position. Net position, is reported in the following three major categories:

- **Net investment in capital assets**—shows the equity in property, plant, and equipment.
- **Restricted**—shows the resources that must be used for restricted purposes, as specified by donors and external entities.
- **Unrestricted**—shows the resources available for general operations.

Statement of revenues, expenses, and changes in net position—This statement reports all revenues, expenses, and other changes to net position. Revenues and expenses are reported as either operating or nonoperating. The change in net position indicates whether financial health has improved or deteriorated as a result of current-year activities. Net position increased by \$93 million, or 8 percent, in the current fiscal year as compared to an increase of \$57 million, or 5 percent, in fiscal year 2012.

Condensed statement of net position As of June 30, 2013 (In millions)

Assets	
Cash and investments	\$ 753
Capital assets, net of depreciation	1,720
Receivables	216
Other assets	30
Total assets	<u>2,719</u>
Liabilities	
Long-term debt	1,288
Other liabilities	212
Total liabilities	<u>1,500</u>
Net position	
Net investment in capital assets	610
Restricted	247
Unrestricted	362
Total net position	<u>\$1,219</u>

Condensed statement of revenues, expenses, and changes in net position For the year ended June 30, 2013 (In millions)

Operating revenues	
Tuition and fees	\$ 462
Grants and contracts	473
Auxiliary enterprises	190
Other operating revenues	50
Total operating revenues	<u>1,175</u>
Operating expenses	
Educational and general	1,381
Auxiliary enterprises	157
Depreciation	113
Total operating expenses	<u>1,651</u>
Operating loss	(476)
Nonoperating revenues and expenses	
State appropriations and shared revenues	275
Grants, contracts, and other appropriations	200
Other nonoperating, net	61
Net nonoperating revenues	<u>536</u>
Capital and endowment additions	33
Increase in net position	93
Net position—beginning	<u>1,126</u>
Net position—ending	<u>\$1,219</u>

Summary of audit findings and recommendations

During the University's financial statement audit, we found that internal controls over access to the University's payroll information system were not always followed, and internal controls over the preparation of its deposits and investments financial statement note disclosures were not adequate. Our report on Internal Control and Compliance over financial reporting includes a Schedule of Findings and Recommendations that contains further details to help the University correct these deficiencies, which are summarized below.

Controls over payroll system access not always followed

The University's policies and procedures for controlling access to its payroll information system were not always followed. Specifically, the University did not always maintain documentation showing that access granted to users was appropriate and properly approved. In addition, the University did not conduct a comprehensive review of payroll-system-user roles during fiscal year 2013. As a result, there was an increased risk of unauthorized system access and damage, loss, or modification to programs and data.

Recommendation

The University should retain documentation showing that access granted to system users was appropriate for their job responsibilities and properly approved. Further, the University should perform a comprehensive review of all payroll system user roles to ensure user roles remain current and appropriate.

Inadequate internal controls over preparation of deposits and investments note disclosures

The University lacked adequate internal controls over the preparation of its deposits and investments financial statement note disclosures. Specifically, auditors found that the University incorrectly classified \$153 million of its deposits and investments. As a result, in the initial notes to the financial statements, the University did not report maturity dates or credit-quality ratings for \$83 million of investments and did not report that \$70 million was invested in one entity. The University made all necessary adjustments to accurately report its deposits and investments in its notes to the financial statements.

Recommendation

To improve controls over the preparation of deposits and investments financial statement note disclosures, the University should develop and implement procedures requiring a more detailed review of the classification, maturity dates, and credit-quality ratings of deposits and investments to help ensure this information is properly disclosed.